Moral Hazard in Prominent Members of Society

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In recent discussions regarding the lousy aspect of luck (in which people assume that the chances of something bad happening are too low), the idea of moral hazard relating to U.S. policymakers has been introduced. Consumers blindly trust the people in charge, and rarely recognize when they are being taken advantage of. Rutger Claassen of Utrecht University states, “citizens may have been unable…to make well-informed decisions about the level of risk they are willing to accept, and financial providers may have exploited this lack of knowledge” (2015). Furthermore, Lina He et al. states “Doctor moral hazard has a significant effect on the doctor-patient relationship, increases the cost of healthcare, and introduces medical risks. It is a global concern” (2020). With these two statements in mind, one is prompted to ask how moral hazard influences the financial, health-related, and political policies made by policymakers in the U.S., which affect the everyday lives of millions of people. If people are being exploited to benefit their providers, the policies must be recognized and alternative systems created.

Health-Related Policies

U.S. policymakers in the medical field make decisions about the matter of course for their patients in a morally questionable manner. Yaohui Wang et al. describes moral hazard in doctors causing a drastic increase in medical costs in various countries, saying that “healthcare expenditure in the United States rose from 26.9 billion USD in 1960 to 1,149.1 billion USD in 1988” (2020). Although the authors of this peer-reviewed journal draw from statistics that are not considered recent in this context, the information still conveys the message that moral hazard is prevalent in doctors performing over-priced medical procedures. To explain the drastic increase in medical costs during the given time period, Yaohui Wang et al. establishes that moral hazard in doctors is a result of, “information asymmetry, opportunity, and self-rationalism” (2020). To put it plainly, when an authority figure, such as a doctor, sees an opportunity to increase the costs of the patient’s medical procedures for one’s own benefit, the doctor will take that chance to gain monetary profit.

Although one may point out blatant corruption in this situation, a few policies are in place to prevent doctors from committing this deed. One such policy is the Health Insurance Portability and Accountability Act of 1996 (HIPAA). According to the U.S. Department of Health and Human Services, this act combats fraud committed in private and public health plans (1996). Under this act, the Health Care Fraud and Abuse Control Program (HCFAC) was created. The HCFAC enforces the proper use and establishment of healthcare plans in order to prevent fraud and policies that take advantage of the patient’s socioeconomic status (1996). These policies prevent greedy individuals from unnecessarily increasing medical costs for personal gain. But according to Kaitlin Sullivan, a health-based journalist for the National Broadcasting Company, hidden costs such as x-rays and colonoscopies may evade the HCFAC’s control (2022).

Contrary to what one may think, hospital policymakers are not the only ones that display moral hazard. In fact, some take advantage of the leniency of those in charge and use the policies in place to benefit themselves. As Deborah Stone of Dartmouth College states in her peer-reviewed article, “people take advantage of insurance to gain admission to hospitals, wangle prescriptions for expensive drugs, and get procedures they don’t really need” (2011). Stone goes on to state how people who have steady insurance tend to use hospital services much more than those that do not have insurance, which may cause problems for the lower class who cannot afford to make regular visits to hospitals or buy insurance (2011). This causes an imbalance in the provision of health services, where the healthy upper class receives more medical attention than the needy lower class, as recorded in a statistical survey by Kim Parker from the Pew Research Center (2012). One can logically reason, with this information, that people tend to abuse their hospital services due to their financial stability. Some may even reduce preventative efforts and assume that their insurance will take care of any possible issue, demonstrating moral hazard.

Financial Policies

Policymakers in the financial field, which includes banking, display implicit immorality in their decision-making regarding their customers and clients. When it is financially profitable to disregard agreements between the client and provider, banks may show a level of corruption, however small of a decision it may be. As Rutger Classen of Utrecht University points out, this corruption is “evident through the bailout of banks in the recent financial crisis” (2015). The Global Financial Crisis (GFC) refers to a period between mid-2007 and early 2009 when the global financial markets and banking systems were under extreme stress, and millions of people lost their jobs. According to the Reserve Bank of Australia, excessive risk-taking in an economic environment was one of the greatest causes of the GFC (2022). Banks sought to make short-term profits by taking risky offers from investors to ensure that they beat the competition (2022). Banks did not closely assess the reliability of their clients, which was due to the widespread presumption that nothing unfavorable could result from the current processes. When the number of clients who were unable to repay their loans rose rapidly, the dangerous prospect of a global crisis struck investors. This demonstrates how moral hazard in financial policymakers influenced those in charge to take immense risks for short-term profit margins.

Economists responded to the GFC by implementing policies to prevent further mistakes on the part of the provider as well as the client. These policies effectively eliminate much of the prospect of moral hazard in financial banking situations. One such policy is the restriction of rising interest rates. Individual banks lowered their rates to stimulate economic growth and activity to create jobs for those that lost their jobs during the recession. According to the Reserve Bank of Australia, these rates created “financial securities to support dysfunctional markets” (2022). In addition, governments presented a solution by increasing the monetary amount spent to support employment and create job opportunities throughout the economy, an effort resulting in the restoration of jobs lost. Perhaps the most important of these solutions is the strengthened oversight of financial firms. Banks assess the risks of the loans provided more closely and use stronger funding sources (2022). The amount of short-term loans provided has been cut drastically to reduce the chances of risk spreading throughout the banking system. But these policies were slow to take hold, as the economy returned to its pre-GFC employment rate in 2016, about nine years after the crisis struck, according to the U.S. Bureau of Labor Statistics (2017).

Even though financial policymakers unknowingly caused the GFC, some managers deliberately take advantage of their clients to benefit themselves, displaying moral hazard. As Claassen states, “citizens may have been unable, due to the complexities of financial products, to make well-informed decisions about the level of risk they are willing to accept” (2015). Providers may take advantage of this ignorance in their clients, presenting them with too much information to comprehend. As such, clients are unable to make informed decisions accurately enough to benefit themselves and rule out options that are unsuitable to their financial status. In today’s modern climate, Claassen recognizes that people feel a need to keep up with the rapidly rising standard of living in the U.S., so people make uninformed decisions much more common than ever before (2015). The social pressures of today contribute to the lack of feeling fulfilled with one’s life. This, coupled with the reliance on money that is necessary for comfortable living in modern society, is a deciding factor when it comes to desperate clients making risky decisions.

Political Policies

The question regarding how moral hazard is present in society brings up a political analysis of the issue. Politics is a widely discussed topic universally because it affects each and every individual who considers themselves to be a functioning part of society. Figures of power in the U.S. government, like the president and representatives of the State, are assumed to prioritize the best interests of their citizens with the utmost importance. But, Jack Knott of The University of Southern California disagrees with this assumption, as he states, “Political moral hazard weakened institutional checks and balances in economic regulation” (2012). Knott mentions the GFC in his article, referring to the fact that the government played a monumental role in instigating the financial crisis, as previously mentioned (2012). The aforementioned checks and balances prevent government officials from taking advantage of their powerful status and converging political ideology. Since this convergence of preference took place during a time of financial advancement, the government could not foresee the consequences of its actions (2012). As such, Knott supports the conclusion that moral hazard greatly affected the initiation of the GFC, as it relates to government officials in high-ranking positions.

Administrators in political settings may display moral hazard in the level of risks that they are willing to take. As Sascha Füllbrunn and Tibor Neugebauer from the University of Luxembourg state, “limited liability leads to higher risk-taking in comparison to full liability” (2013). If applied to a political context, one can conclude that when officials are given the option of limited liability for a risky decision, they will accept it due to the diluted amount of responsibility they will be held accountable for, and this allows for political growth. Such policies that allow the spread of responsibility in a setting are permissible in certain cases. For example, when a bill is passed, each branch of the government holds accountable for the creation of a new law. But when one executive makes the decision for an entire system, ulterior motives may not come to light. Thus, despite the higher amount of risk-taking, it is important to dilute the responsibility of officials regarding these decisions in government, so that individual interests are recognized and eliminated.

Collective action to address issues and agree upon a plan of action to solve such issues is a trait that the U.S. government lacks. According to Vincent Anesi from The University of Nottingham, “political and economic theorists point to moral hazard in teams as the main obstacle to lobbies’ collective action” (2009). Anesi conducted an experiment in which participants mock a hierarchical power structure. This structure is representative of a governmental institution, where officials have certain incentives that generate moral hazard. A control group in the experiment has the same hierarchy, but without any incentives that influence the development of any ulterior motives in those with authority. From his experiment, Anesi concludes that “[moral hazard] may also raise the level of collective action of large groups with low organizational costs” (2009). This outcome shows a positive effect of moral hazard on the initiative that governmental institutions take. Using this information, one may reason that if political institutions give their employees incentives that drive the level of productivity forward, the unavoidable moral hazard may be used to the institution’s advantage. Rather than allow the creation of situations in which individuals are susceptible to moral hazard for personal benefit alone, if the client and the authoritative power both benefit, then the elimination of moral hazard in political institutions becomes unnecessary.

All in all, moral hazard has an unavoidable presence in modern society. While some authoritative powers abuse their positions for personal gain, there are measures in place to prevent any drastic outcomes. HIPAA and HCFAC prevent corruption in the medical workplace, while banks have new policies to prevent another financial crisis. Moral hazard’s negative connotation takes away from the fact that it can also be used to benefit everyone involved in a medical, financial, or political setting. If employers give their employees incentives, such as a pay raise, that subdue the desire to work dishonestly for monetary gain, then moral hazard can be used as a mutually beneficial tool. Although this may not apply to those who wish to make profits in areas other than money, the different incentives that an employer or administrator provides can be adjusted to the worker’s preference. Through a gradual process, moral hazard can be used to create new executive policies that eliminate the exploitation of customers.

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